Justifying Interlocal Cooperation: Feasibility Studies, Financing and Cost Allocation

A White Paper from the Michigan Government Finance Officers Association

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I. A Little Background…

Budgets

Today's regional economy leaves much to be desired. Michigan is among the worst performers in the nation with regards to unemployment, population growth, and economic momentum. The State's population growth rate is less than one-third of the national average and its unemployment rate is the second highest in the nation, with job loss declines for five consecutive years in both the public and private sectors.

In additional to these economic woes, local governments are under increased financial pressure from other causes as well – flat or declining property tax revenues resulting from Proposal A and Headlee; stable or declining interest income from investments; State revenue sharing reductions; reduced grant opportunities; growing healthcare costs; ballooning pension liabilities; spending restrictions in Medicaid, public health program funding, court equity monies, and so on.

Thus, balancing budgets year-in and year-out is no small challenge.

Service Provision

Traditionally, when communities had to operate more or less independently due to geographic and technological isolation, direct and sole service provision was expected. In Michigan, hundreds of local units of government operate largely independently from one another. Nationally, the number is nearly 90,000 (see sidebar). All provide *indirect* services (e.g., payroll, accounting, purchasing, information technology, etc.) while *core* services provided are essentially the same across communities. Many of these are capital-intensive and consume large proportions of the fiscal budget (e.g., public safety, courts, public works, etc.).

Local Governments Within The U.S.

• Counties	3,034
• Municipalities	19,431
• Towns & Townships	16,506
• School Districts	13,522
• Special Districts	35,356
Total:	**87,849**

***** - GFOA, *GAFFR*, 2005

Residents and businesses are less concerned about *where* their services come from than they are about *quality* and cost-effectiveness of the services themselves. Decisions about where to live and work are influenced to *some* degree by *certain* services and their level of quality (e.g., the availability of quality public schools will often influence a young family's search for a new home). For many other services, it matters *less* where the service comes from, though quality and availability are critical (e.g., EMS). It also helps to keep in mind that constituents often live in one community and work in another, and businesses service a broad area, not just one community. Therefore, arguably, the *holistic* provision of services *regionally* should be the focus of local governments in many cases. Such cities, villages, and townships (CVTs) and counties may do well to view:

- Themselves as a *team* of service providers contracted by a *common* set of regional customers.
- Inter-community competition as counterproductive.
- Regional cooperation and re-engineering of service delivery models at the *inter-community* level as potentially cost-effective and of greater benefit to constituents.

Collaboration

As a direct consequence of the forgoing matters, many of Michigan's CVTs and counties are pursuing collaborative initiatives – alternately called interlocal (intergovernmental) cooperation or joint public services, which this paper shall refer to as ILC/JPS. If one were to delineate the *results* of collaboration between communities, the list would undoubtedly include the following:

- Typical of jurisdictions covering broad geographic areas, the provision of service – either in terms of quantity or quality – may not be uniform, e.g., timeliness of delivery or access to the service may be impacted by distance from the source. Often this is due to the inability of the jurisdiction to afford more optimal coverage, technically more sophisticated equipment, or more extensively trained personnel. Interlocal cooperation is particularly well-suited for optimizing what would otherwise be underutilized resources. Thus, the increased cost of additional and/or state-of-the-art equipment and higher paid staff can be economically justified *if* the services are provided to, and shared over, a larger area. This, then, can lead to more *uniform service delivery and quality*.

Why Pursue Interlocal Cooperation?

Service Provision

- Increases manpower to improve service levels
- Improves employee performance and morale
- Enhances career opportunities for staff
- More efficiently uses personnel and their talents
- Decreases response times
- Improves quantity and quality of services
- Reduces duplication of services
- Broadens resource accessibility / utilization

Finance

- Spreads financing responsibility and risk
- Broadens equipment replacement cost sharing and achieves volume purchasing discounts
- Capital acquisition/improvements and certain other resources becomes more efficiently and effectively utilized due to economies of size, scale, and scope

III. Community Relations

- Meets citizen expectations that communities should work together to leverage tax dollars
- Improves equity of access to services
- Expands the sense of community
- Reduces problems of jurisdictional boundaries
- Fosters an environment for future joint ventures
- Attracts businesses and furthers economic development

- In tandem with uniformity of service delivery and enhancement of asset utilization, ILC/JPS initiatives can *reduce redundancy of operations* and equate to both *intangible (quality) and tangible (cost) improvements* across participating communities.
- The *intangible benefits* of interlocal cooperation include:
    - Expanding the sense of community.
    - Providing, in some cases, a service that would not otherwise be available, often at a relatively low incremental cost.
    - Avoiding the risks of *not* collaborating, e.g., layoffs, insolvency/takeover, increased taxes.
    - Reducing the impact of attrition and retirements, since efficiencies gained through ILC/JPS often eliminate the need to fill vacated positions.
    - Leveraging the experience and talents of personnel across a broader area.
    - Providing training and promotional opportunities for staff *beyond* the organizational borders of their "home" unit of government.
    - The hiring and retaining of professional, well-educated, and highly qualified staff.
    - Fostering future joint ventures among communities (success breeds success).
- One of the promises of interlocal cooperation is to break down barriers to doing business – whether real or perceived – to encourage companies to set up shop or expand within the region. *Economic development is fostered* by making licensing, building codes, tax rates, etc., easier to understand and more uniform within and between communities.

Why *Not* to Pursue Interlocal Cooperation…

Keep the old adage in mind that if the cost of doing something exceeds its benefits, then don't bother doing it! In the context of ILC/JPS, "costs" are not only economic, but political, legal, cultural, and social. Even when a strong *financial* business case can be made, it may be foolhardy to pursue an ILC/JPS initiative. Thus, any of the following situations should cause collaborating communities to proceed with caution:

- The backing of elected officials and administrators is not uniform
- The sense of community would be too diminished in the eyes of the citizenry
- Ceding control may increase risks of quality problems
- Reduced oversight would diminish checks and balances beyond prudent levels

II. Scope of ILC/JPS[1]

There are few limits on the service areas to which ILC/JPS can be applied:

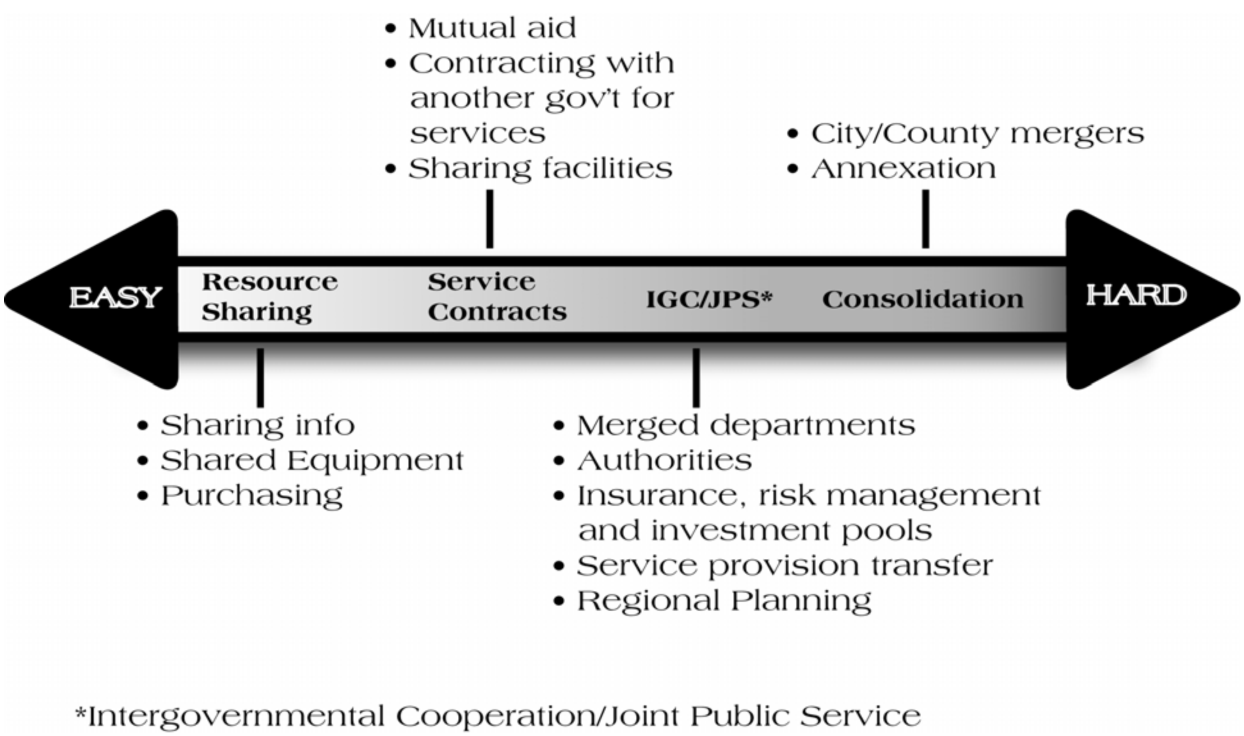
- Administrative
    - Financial
    - Procurement
    - Human Resources
    - Payroll
- Animal Control
- Arts and Culture

[1] - An excellent discussion of ILC/JPS opportunities can be found in the winter, 2006, edition of *SEMscope*.

- Assessing
- Economic Development
- Education
- Environment
- Fire
- Hospitals/ Medical Care Facilities
- Public Health Departments
- Housing
- Information Technology
- Land Use
- Library Services
- Neighborhood Revitalization
- Parks and Recreation
- Public Facilities
- Public Safety
- Public Works
- Purchasing
- Senior Services
- Transportation
- Workforce Development
- *And so on!*

The diagram below illustrates the *spectrum* of ILC/JPS endeavors. Complexity and risks for failure grow as you move from left to right along the continuum…*as do the benefits!* While the diagram places ILC/JPS *along* the spectrum, the term often refers to the *entire range* of collaboration.

The Spectrum of ILC/JPS



III. Conducting Feasibility Studies

The Approach

When considering an ILC/JPS initiative, eventually every stakeholder asks, "What's in it for me?" A good business case is essential to both *selling* an ILC/JPS endeavor and *succeeding* at it. Making that case involves preparing a feasibility study, and is the focus of the remainder of this white paper. A white paper entitled, "The Business Case for Interlocal Cooperation" is available from the MGFOA at www.MiGFOA.org.

Comprehensively conducting a feasibility study is no small undertaking. It involves a great deal of time and effort on the part of all participants. Presented herein is the MGFOA's recommended approach to studying whether a proposed collaborative initiative makes sense, identifying the main issues at hand, and assessing the risks to be mitigated. It is based on actual studies conducted.

Study Committee

The first step in conducting a feasibility study is to form an official Study Committee, recognized and supported by the elected officials and administrators of all of the participating communities. The Inter-municipality Study Committee Act and the Supervisors' Inter-county Committee Act provide the legal foundation for forming such a committee. Representation on the committee should include members from all participating communities and stakeholder groups[2].

Once in place, the members should adopt a set of bylaws or informal guidelines to be followed to conduct meetings, research issues, and reach conclusions. Then, the members should establish a meeting schedule and decide where each meeting will be held. Before proceeding further, the committee must delineate what areas need to be studied and form Study Groups to do so.

Study Groups

Typical areas that will need to be studied, and decisions which need to be made, include:

- **Governance** – who makes up the governing board (e.g., from which communities, public vs. private sector, include constituents or not, how many), how are they selected (e.g., appointment vs. election), what are their terms and should they be staggered to promote stability/continuity, what skill sets should they possess, should there be both an oversight board (political) *and* a technical board (oversees operations), etc.

  A few words to the wise are in order. First, purely political governing boards should be avoided. The most productive boards are those with members who possess a vested interest in the collaborative initiative's success – economically, legally and operationally – and can proactively *contribute to* that success by

[2] - Unions and employees, elected officials, citizen groups and residents, administrators, the media, local business groups and companies, etc.

bringing to the table a broad set of skills. Second, boards that contain equal representation from the participating communities may tend to perform better, as opposed to formulaic approaches (e.g., composition based on population, budgets, etc.). Third, an odd number of Board members is recommended. The "odd person" could be appointed by a neutral (not a party to the collaboration) third-party, e.g., a citizen advocacy group, the County, etc., or selected by the Board members. Fourth, larger boards are not advisable, as they can bog down the decision making process.

- **Management** – who will manage the new entity[3], how will they be selected, who will they report to, etc.

  Look not only to the existing management from the participating communities for candidates, but also to experienced individuals from existing collaborative entities. Further, a truly new entity (e.g., a new Authority) will need its own bylaws, charter, policies and procedures, etc.

- **Organization** – what will the organization and its reporting relationships look like, how will combined staffing levels compare with current levels, how will training and continuing education be accommodated, how will each staff member's prior seniority be accounted for in the new organization, what will the salary / pay scale look like, how will preexisting pension and other benefit plans be accommodated, etc.

  The pay rates, benefits, and pension plans delineated in preexisting labor agreements may need to be renegotiated. Note that PA 156 of 1851 states that communities will "immediately assume and be bound by any existing labor agreements applicable to employees [who] shall have the same rights, privileges, benefits, obligations, and status with respect to the comparable systems established."

- **Support Services** – how will the new entity secure necessary support services and pay for them, e.g., financial accounting, information technology services, facilities maintenance, human resources management and payroll, etc.

  This involves both identifying which *services* are needed and who will *provide* them. Subcontracting with one of the participating communities is a logical choice, but third-party outsourcing should be considered as well. A "make or buy" decision process should be undertaken. A GFOA publication on this topic is available at http://www.gfoa.org/services/dfl/budget/documents/MakevsBuy.pdf.

- **Operations** – what service types need to performed, what service quality levels need to be maintained, what geographic areas need to be served, what is the density and distribution of customers, are there *new* services that will be offered, what are the technology / communication needs of the broader entity, etc.

  Identify a credible source for assistance in benchmarking service levels and quality standards, such as a national standards setting agency, university, or

[3] - Note that an "entity" in this context would be any arrangement illustrated on *The Spectrum of ILC/JPS* above.

association. This will greatly enhance the study group's ability to *objectively* determine and "sell" recommendations. Benchmarking typically includes:

- Determination of staffing levels to meet certain service levels
- Optimal placement of facilities and assets using GIS-based tools
- Determining if any *existing* facilities can be closed/sold
- Modeling what the new service levels will be by location (e.g., fire run response times by sector)[4]

- **Feasibility Study and Cost Allocation/Financing** – should an independent third-party be retained to conduct the feasibility study (calculate the ROI/payback) and present it to the stakeholders; what would be each participant's share of the costs, debt, etc.; what funding options / sources are available, etc.

  Each of the study groups will provide key information necessary to completing the feasibility study. The results of the study will, in turn, determine cost sharing. Ultimately, each community must decide on the fairest approach to take. Whether the participating communities are of similar size, have similar land use, and have a similar demand for services will also play into the decision. Typically one of the following approaches will be taken:

  1. Agree to a simple, equal-share allocation to all parties. So, if there are three municipalities involved, then one-third of all costs, debt, etc., are allocated to each. This approach has the advantages of being readily understood, easy to administer, and independent of usage. With this approach, however, heavy service users tend to become "donors," i.e., they subsidize low service users.
  2. Split the costs based on service usage. So, when usage goes up, the allocation goes up, and vice versa. However, "use" may be difficult to track in some cases (e.g., for fire protection, there is a high fixed cost for simply having the service in place *regardless* of usage).
  3. Take a hybrid approach that captures *both* the fixed costs *and* the variables costs of service usage, such as a formula based on population, property values, and fire runs. This approach has the advantage of being most economically fair, however, it is also the most complex to administer and monitor.

- **Infrastructure & Assets** – whose assets will the new entity use, where will staff be located, are expanded or new facilities needed, are assets outdated or due for replacement, etc.

  Via economies of scale, size, and scope, the optimizing of facility locations and sharing of costly equipment across a broader geographic area will often result in long-term cost savings. Projecting *when* and *where* new facilities and assets are needed is crucial to this. For truly new entities like an Authority, this may entail "buying-out" the original owners of the assets, transferring ownership of land or other assets to the Authority / entity, bonding for new facilities, etc.

[4] - This should be done to assure all – or at least manage the expectations of – stakeholders that the new entity will be responsive to their needs and that no service level degradation is expected.

- **Transition Planning** – how and when will the assets, staff, policies, organization, etc., actually be put into place; will additional communities be solicited to join the collaborative initiative; etc.

  Once all decisions are finalized and the collaborative initiative is ready to move ahead, staffing and management must be put into place. This may involve retirements, pay and benefit adjustments, relocations, and even layoffs. Attrition can be projected and is often used to make the transition to a more cost-effective (i.e., lower staffing level) operating model more palatable, though this philosophically requires the participants to hold a longer-term perspective.

  Additionally:

  - Facilities and equipment need to be in place once staff and management are ready to begin operations.
  - When a new taxing Authority is being formed, a public ballot initiative / vote are required.
  - Keep in mind the *nature* of the collaborative initiative's service. In some cases, geographic continuity is a necessity (e.g., Fire and EMS services) and the communities need to be contiguous. In other cases, geographic continuity is irrelevant (e.g., a shared software system).

- **Communications** – who will communicate with the media, who are the stakeholder groups that need to be kept informed, etc.

  Once all stakeholder groups are identified, keeping them informed consistently and coherently is crucial to gaining and keeping buy-in. A point person should be assigned, through which all communications with the media and other stakeholders are controlled.

- **Other –** each collaborative initiative is unique and will often require other study groups pertaining to other decisions that need to be made.

Data Collection

Collecting the following information will facilitate conducting the feasibility study and selecting appropriate financing and cost allocation strategies:

- Demographics and community profile (e.g., economic base, population, housing, etc.).
- Most recent Audited Financial Statements and/or CAFR for each community.
- An organization chart of programs/departments affected by the proposed cooperative initiative, including all positions (full-time, part-time, or volunteer) and their years of service, qualifications, certifications, etc.
- Revenues of programs/departments affected by the proposed cooperative initiative: Dedicated Millage / Rates, SEVs, and Taxable Values for each community; General Fund Contribution; Grants; Fees/ Fines; etc.
- Expenditures of programs/departments affected by the proposed cooperative initiative:

- o *Direct*: Total Full-Time Wages; Other Wages; Overtime; Benefits; Health Care; Retiree Health Care; Retirement Contribution; Supplies; Equipment; Facilities (operations and maintenance, including utilities); Debt Service; Pension and retiree healthcare liabilities of programs/departments affected by the proposed cooperative initiative
  - o *Indirect*: Human Resources and payroll services, Information Technology support, accounting and financial reporting, invoicing, facilities maintenance, etc.
- A copy of the most recent labor contract(s) representing the staff of the programs/departments affected by the proposed cooperative initiative.
- Rotation (e.g., 12 hour vs. 24 hour), shifts, and minimum staffing levels by facility.
- Major capital outlay projections and anticipated expenditure increases (e.g., equipment, buildings, new hiring, etc.) of programs/departments affected by the proposed cooperative initiative.
- Existing assets of programs/ departments affected by the proposed cooperative initiative, including their purchase price, current estimated market value, and likely replacement date.
- Facilities owned and operated by the programs/departments affected by the proposed cooperative initiative, including address, size, cost of construction, book value, and debt outstanding.
- Work load data (e.g., work orders; number of events; number of runs or incidents) and target customer service level / response time objectives (and actuals) by facility and in total for each program/department affected by the proposed cooperative initiative.

Oakland County's Capital and Cooperative Initiatives Revolving Fund (CCIRF)

- The CCIRF fund was established to maintain the financial stability of Oakland County as budgetary pressures continue to impact local communities.
- The monies can be used to obtain consulting assistance for CVTs as they explore privatization and other interlocal cooperation initiatives to generate long-term reductions in expenditures, revenue enhancements, and/or cost avoidances
- The CVTs must complete an application and are subject to a formal selection process
- A formal governance structure is in place to oversee the selection of projects and allocation of monies

Current revenues and expenditures must be collected, and *projections* of revenues and expenditures must be calculated, based on valid assumptions. Often, a third-party, such as a CPA firm, is retained to perform this crucial task. An added benefit to doing so is their assured independence. Of course, paying for the services of the third-party is a consideration (see sidebar).

ROI/Payback Modeling

Once the study groups have collected their data, benchmarked and verified all projections, and agreed on the transition plan, it is time to develop the ROI/Payback model. A template model spreadsheet with *sample data,* and instructions on how to use it, is available from the MGFOA at www.MiGFOA.org. If revenues/cost reductions cover *operating* costs within the first six-years, then the model indicates the break-even year. If not, it will indicate that the endeavor is a "No Payback" proposition. In other words, back to the drawing board!

A significant weakness of ROI/Payback modeling is that there may be non-financial reasons for pursuing ILC/JPS that justify proceeding. Thus, it is advised that participants not necessarily put all their eggs in the ROI basket. An excellent case in point was a

Fire Authority study involving five communities, all of whom had been dealing with budget cuts for several years. By the time the study was fully underway, the Fire Departments involved were operating with skeletal staffs, jeopardizing their ability to maintain acceptable response times per International Association of Fire Fighters (IAFF) standards. Based on IAFF Modeling, staffing levels *collectively* would have to remain the same just to *maintain* acceptable response times across the *region*. Thus, while *long-term* savings may be realized through joint acquisition and sharing of capital equipment and facilities, *short-term* financial relief was out of the question. Yet, the overriding reason for the Authority had to be to *maintain* acceptable response times and *currently* provided services, so moving ahead with the Fire Authority was still the prudent move to make.

Go / No Go Decision

So, the Study Groups have done their job, the data is in, the analysis is complete, and the ROI/Payback model indicates that indeed the collaborative initiative has a payback period of six years or less. What next?

Well, first the committee must agree – or not – to take a recommendation to their communities to proceed. Then, buy-in from *all* of the stakeholders must be formally secured – unions and employees, elected officials, citizen groups and residents, administrators, the media, local business groups and companies, etc.

The governing bodies of the participating communities must then formally act to approve the collaborative initiative. The form of the approval will vary according to the enabling law authorizing the cooperative action. The approval, for example, in some cases may be by ordinance, in others by simple resolution; a supermajority vote may or may not be needed; there may be public hearing requirements or referendum rights; publication and filing requirements are common; State approval may be a condition; in some cases, an election may be required. Each participating community should carefully review the specific procedural requirements of the enabling law being used as the cooperative venture's basis and take care to follow the statutory regimen.

If the stakeholders have been kept abreast of the steps being taken to study the collaborative initiative, their concerns have been solicited and dealt with, and bridge-building between potential opponents and proponents has been fruitful, then securing buy-in should be little more than a procedural exercise in the end. However, if the committee has *not* kept the stakeholders in the loop and/or has compromised to satisfy influential parties, then an education and negotiation process must be initiated – a process likely to be long and drawn out with no guarantee of success.

Implementation

Once approval from all concerned is secured, the real work begins – implementation of the collaborative endeavor! Staffing and management must be put into place, cost allocations to participating communities (see below) have to be reflected in their budgets, finances need to be secured, bonds may need to be issued, facilities and equipment need to be secured, union negotiations may have to be initiated and concluded successfully, and so on.

To successfully mange the implementation, it is advisable to prepare a detailed plan using a tool such as Microsoft Project. It may also make sense to retain the services of an experienced project manager. Monthly meetings of the original study committee – or the new governing Board, if it is put in place early on – should be held to monitor progress and make decisions as necessary.

Even if the collaborative initiative has progressed to this stage, many things can still go wrong. Carefully monitor progress, keep abreast of each stakeholder's position (and disposition), don't assume everything is written in stone, and be prepared to change.

IV. Financing and Cost Allocation

Before any collaborative initiative can get off the ground, plans for funding – initially and on-going – must be solidified. One can not complete a feasibility study without asking: How *much* funding do the participating communities currently have? How much funding does the initiative *need*? Where should future funding come *from*? How will that funding responsibility be *shared*? What will the financial *benefits* of the initiative be for each participating community? Local units of government must decide how to generate the necessary level of revenue (*financing*) for start-up and on-going operational *costs*, and how to *allocate costs* among the participants.

Fire Authority

A Fire Authority was formed between a city and township. The Board consisted of three members appointed by the City and two from the Township. The variable *and* capital improvement cost allocation approach taken was an indirect method involving a weighted formula. The weighting factors were:

- Population – 30%
- SEV – 30%
- Number of Fire Runs – 40%

The formula and its components are revisited annually and adjusted accordingly to maintain an acceptable level of equity among the two communities.

Financing strategies are legally restricted by the organizational structure chosen (e.g., a mutual aid agreement for fire suppression vs. a Fire Authority). The financing method selected has far-reaching distributional consequences concerning who benefits and who pays. Financing can come from general-fund revenues, extra-voted property taxes, special assessments, user fees, third-party payments, grants, or donations/contributions. Certain Michigan laws grant bonding authority and the ability to levy a property tax for particular joint ventures. Other laws allow for cooperation, but do not grant taxing authority.

Cost allocation comes into play when the entity responsible for service delivery does not have independent taxing authority (e.g., a mutual aid agreement for fire suppression). The entity must identify its revenue sources (e.g., from customers, from parent units, from a combination of the two) and determine *who* is responsible for *which* costs and for *how much*. Equating costs with benefits is the key to effective cost allocation – and identifying and quantifying benefits can be quite challenging. Some services have a direct benefit (an EMS run) and a per-unit cost[5] that can be charged back to either consumers or the parent units, or a prorated share to both. Others, though, are so

[5] - When calculating a per-unit cost for a service, both fixed and variable costs must be included to ensure not only near-term operational viability, but also long-term maintenance of assets and service quality.

indirect (e.g., economic development) that broader forms of general taxation tend to be used to fund the service. Third-party expertise is often required to develop an acceptable allocation model and demonstrate the independence sometimes necessary to “sell” it.

A discussion of the above is discussed in “Financing Joint Ventures: Alternatives and Consequences,” a white paper from SEMCOG available at http://www.semcog.org/cgi-bin/products/publications.cfm (sort the publication list by topic, then search under “Intergovernmental Cooperation”). Also, the MSU Department of Agricultural Economics, College of Agriculture, has an excellent handbook on financing and cost allocation (available at www.msu.edu) that lists the various state laws (Acts) on the books, what revenue sources are granted by them, and which types of local government are eligible.

V. Case Studies

Westland Police Department – CLEMIS

The Westland, Michigan, Police Department had been operating with information system applications from a third-party software vendor to meet its primary information needs. Generally, these applications provided adequate functionality, but lacked full integration. The Department decided to replace its in-house software with services and applications provided by the Courts and Law Enforcement Management Information System (CLEMIS) consortium supported by Oakland County Michigan. While the Police Department temporarily lost some of the functionality they enjoyed in their previous system, they gained functionality in other areas. Among the major benefits of CLEMIS (see sidebar) is having ready access to a multi-county, multi-jurisdictional database of police information – including mug shots – and 24-hour technical support.

CLEMIS

The Court and Law Enforcement Management Information System (CLEMIS) represents over 200, public safety agencies across Southeastern Michigan. Thirty years ago, CLEMIS began as an effort to establish a common records management system. Today, it represents one of the largest regional public safety systems in the nation. Features of CLEMIS include:

- Computer Aided Dispatch
- The CrimeView GIS decision information system
- The OakNet fiber-optic network
- The OakVideo video conferencing / arraignment system providing seamless workflow from the police vehicle to the prosecutor, judge and corrections officer
- A Fire Records Management System
- The Regional LiveScan fingerprint and mug shot system
- A County-wide radio system built on OakNet, providing voice and data interoperability to participating communities.

To move ahead with CLEMIS, Westland had to convert its historical incident, contact, and active case data. Also, various hardware and communication system upgrades had to be implemented. Bottom line, the *one-time* costs to the City for transitioning to CLEMIS approximated $100,000. *On-going* annual operating costs, including mobile computer lease fees, averaged $80,000. When compared with the annual projected operating costs of approximately $135,000 for the City’s *previous* solution, a net savings of $55,000 (40%) a year – and a two year payback – was realized.

Between 2002 and 2004, Oakland County, Michigan, and numerous police and fire departments embarked on a feasibility study of consolidating their PSAP (Public Safety Answering Point)[6] call centers. The Chiefs were prompted by reductions in state revenue sharing, erosion of local property tax revenues, and significant increases in healthcare and other costs. Their concern was that their communities may eventually have no choice but to mandate public safety budget cuts.

To that end, the County funded a feasibility study, which was conducted by an independent third-party. The study assessed the pros and cons of the consolidation, cost savings by community, and issues that would have to be worked through (e.g., radio interoperability, personnel compensation and staffing levels, facility selection and bonding, providing jail holding cells). Several study groups were then formed to address key issues. After extensive analysis, recommendations were made regarding organizational structure and governance, holding cells, technology, a facility, personnel, and financing:

- A governing Board under CLEMIS would be formed. The Board would be made up of one Sheriff designee, one County Executive representative, one CVT representative, and three law enforcement representatives.

A few "Words to the Wise"…

- Assuming that ILC/JPS opportunities exist, if the programs/service areas being considered don't have the potential for making a major positive impact on the respective budgets of the participants, there may be little political or financial incentive to proceed. Thus, Public Safety initiatives have received a good deal of publicity of late, as Police and Fire Department budgets account for roughly half of municipal expenditures.
- Cost reductions – while maintaining consistent or enhance service levels – is the overriding objective of most administrators and elected officials who pursue ILC/JPS
- Look for service areas that have potential for economies of size, scale or scope, recognizing that labor-based services with minimal infrastructure or assets are less able to achieve such economies
- Solicit additional communities to join the collaborative initiative
- Diligently strive to overcome negative paradigms:
  - Bad experiences with ILC/JPS in the past
  - Perceptions about neighboring communities
  - Prejudices
- Communication with, and education of, all stakeholders is of great importance
- Recognize that each participant will naturally look out for their community's interests first and the new entity's second
- Participants often do not see the interconnectedness of neighboring communities and how what benefits one often benefits the others
- All participants need to show some benefits from the collaborative initiative
- Identify a leader capable of bringing stakeholders to the table and with a cooperative spirit
- All participants must have a cooperative spirit – inclusive, honest, open-minded, willing to cede some control

[6] - There were 31 such PSAPs across Oakland County at the time.

- Each CVT would be charged a pro rata share of the total costs for the centralized PSAP, based on a cost-reimbursement formula.
- Two municipal jails would be able to provide holding cell space for participating communities. The County purchased a prisoner transport vehicle for use by the police departments.
- Based on a computer-generated staffing model using projected call volumes, staffing levels would be reduced by one-third.
- Staff retained would be held harmless with respect to salaries and benefits.
- Disparate radio frequencies and systems would be dealt with through CLEMIS efforts[7].
- A central facility would be needed, requiring bonding. A facility was identified.

Even after accounting for the costs and operations of a new facility, economies of scale and scope would achieve estimated five-year savings of nearly $20 million, while *enhancing* service levels to the public (savings could be redeployed into community oriented policing programs).

After more than two years of meetings, a go / no go decision was prompted by the availability of, and thereby the need to acquire, a facility – the first formal financial commitment the CVTs had to make. Each member was asked to secure a commitment from their elected officials and administrators, with the understanding that cost savings would result primarily from staff reductions.

The majority of CVTs dropped out in short order. Only five remained committed to the consolidation and could not alone achieve the economies of scale and scope needed to justify the central facility costs. Further, the Sheriff's *existing* PSAP facility was too small to accommodate the remaining communities and the study was abandoned.

Since then, a growing number of CVTs have been affected by public safety budget cuts. A few have combined PSAPs with one another, others are looking at forming Fire Authorities.

VI. So, In The End…

Making a sound business case for interlocal cooperation is the first step towards achieving it. And a thorough and clear-cut feasibility study forms the hub of such a business case. Such a study can manage expectations, address concerns of stakeholders, be used to obtain buy-in from elected officials, and so on. Without it, opposing stakeholders can easily challenge the benefits of a proposed cooperative endeavor. So, a feasibility study should be conducted early on and presented to all stakeholders. If they're still willing to stay at the table, then the endeavor may have the stamina to succeed.

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[7] - CLEMIS is spearheading a centralized initiative to bring almost all agencies in Oakland County onto a single public safety Radio Communications System.

Look for these additional white papers from the MGFOA:

- *The Business Case for Interlocal Cooperation*
- *Selling Stakeholders on Interlocal Cooperation*
- *Interlocal Agreements and Authorities*
- *Keeping an Interlocal Cooperation Initiative Going*

The white papers can be downloaded from the MGFOA web site at www.MiGFOA.org.